

## Message Text

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ACTION AF-06

INFO OCT-01 NEA-10 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01

CIAE-00 CIEP-01 COME-00 DODE-00 EB-07 FPC-01 H-02

INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-03

USIA-06 SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00

FRB-03 PA-01 PRS-01 /100 W

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R 221611Z JUL 75

FM AMEMBASSY LAGOS

TO SECSTATE WASHDC 309

INFO AMEMBASSY BEIRUT

LIMITED OFFICIAL USE LAGOS 6959

E.O. 11652: N/A

TAGS: ENRG, NI

SUBJECT: NIGERIAN OIL INDUSTRY

REF: LAGOS 6600

1. EMBASSY RECOMMENDS TWO-PAGE ARTICLE IN PETROLEUM INTELLIGENCE WEEKLY (PIW) FOR JULY 7 AS A VERY COMPREHENSIVE AND COMPETENT SITUATION REPORT ON THE NIGERIAN OIL INDUSTRY. ARTICLE WRITTEN BY REGIONAL EDITOR KENNETH MILLER WHO IS PIW BUREAU CHIEF IN BEIRUT AND VISITED NIGERIA IMMEDIATELY FOLLOWING OPEC MEETING IN LIBREVILLE.

2. ONLY ERROR NOTED BY EMBASSY IS REFERENCE TO NIGERIA'S "DATE WITH DESTINY STARTING NEXT APRIL" WHEN NNOC WILL HAVE FMG'S FULL 55 PERCENT SHARE OF ALL OIL TO MARKET ON ITS OWN. THIS ACTUALLY HAPPENS JANUARY 1, 1976.

3. MILLER'S ASSERTION THAT "MOST (PRODUCING) COMPANIES, ALTHOUGH TACITLY ABLE TO TAKE ALL THE UNSOLD STATE OIL THEY WANT AT \$11.60

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A BARREL, ARE UNWILLING TO PAY THAT MUCH FOR THE INCREMENT" IS A

DELIBERATELY CRYPTIC REFERENCE TO A GAME BEING PLAYED HERE AMONG THE COMPANIES AND BETWEEN THE COMPANIES AND THE GOVERNMENT WHICH MILLER FULLY UNDERSTOOD BUT CHOSE NOT TO REVEAL IN PRINT. UNTIL 1976, PRODUCING COMPANIES ARE STILL OBLIGED TO BUY BACK 25 PERCENT OF THE GOVERNMENT'S 55 SHARE OF THE OIL -- BUT NO MORE. SINCE FMG IS NOT MARKETING ANYTHING CLOSE TO ITS 41:25 PERCENT (75 PERCENT OF 55), QUESTION HINGES ON DISPOSITION OF THE UNSOLD GOVERNMENT OIL.

4. CULF OIL, WHICH IS STILL IN FMG DOGHOUSE (SEE PREVIOUS EMBTELS), TAKES VERY CAUTIOUS APPROACH, CONSIDERS 55 PERCENT OF ALL OIL PRODUCED TO BE GOVERNMENT OIL. WHEN NO GOVERNMENT OIL IS BEING MARKETING BY FMG 'WHICH HAS RECENTLY BEEN THE CASE WITH GULF'S LOW GRAVITY OIL), GULF PAYS FMG THE FULL BUY BACK PRICE (\$11.60 IN SECOND QUARTER) FOR 55 PERCENT OF THE OIL IT MARKETS.

5. SHELL-BP AND MOBIL, ON OTHER HAND, HAVE MAINTAINED SINCE JANUARY 1, 1975, THAT GOVERNMENT'S INABILITY TO MARKET ITS OIL RELIEVES THE PRODUCING COMPANIES OF RESPONSIBILITY TO PRODUCE IT. ON THIS BASIS, THESE COMPANIES HAVE BEEN PAYING ONLY TAX-PAID COST (ABOUT \$10.70) FOR MOST OF THE OIL THEY HAVE BEEN LIFTING. IN NUMBERS, THIS WORKS OUT SOMETHING LIKE THE FOLLOWING: SHELL-BP AND MOBIL TOGETHER ARE ABLE TO PRODUCE ABOUT 1.7 MILLION BARRELS PER DAY. THEIR PRODUCTION RATE FOR EQUITY OIL IS THEREFORE ABOUT 765,000 B/D (45 PERCENT OF 1.7 MILLION) AND FOR BUY BACK OIL IS 235,000 B/D (25 PERCENT OF 55 PERCENT OF 1.7 MILLION). IF THE GOVERNMENT NOMINATES TANKERS FOR, SAY, 100,000 B/D TO MEET THE NEEDS OF ITS DIRECT-SALE CUSTOMERS AND THE PRODUCING COMPANIES WANT, SAY, 1.2 MILLION B/D FOR THEMSELVES, 1.3 MILLION B/D IS PRODUCED AND EXPORTED. SHELL-BP AND MOBIL THEN REASON THAT 765,000 B/D OF THEIR OIL IS EQUITY OIL (AT \$10.70) AND 435,000 B/D IS GOVERNMENT OIL (AT \$11.60). IN THIS EXAMPLE, AVERAGE COST OF THE 1.2 MILLION B/D TO SHELL-BP AND MIBIL WOULD BE \$11.03 PER BARREL (VS. \$11.20 BY CULF'S METHOD), AND FMG HAS IN EFFECT LOST FROM THE ACCOUNT 400,000 B/D OF ITS OIL, WHICH REMAINS IN THE GROUND.

6. AGIP/PHILLIPS HAS UNIQUE SITUATION BECAUSE 1971 OPERATING LIMITED OFFICIAL USE

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AGREEMENT WITH FMG WHICH SET TERMS OF THE GOVERNMENT'S INITIAL ONE THIRD PARTICIPATION REMAINS IN FORCE EVEN THOUGH GOVERNMENT PARTICIPATION HAS BEEN INCREASED TO 55 PERCENT. LIKE SHELL-BP AND MOBIL, AGIP AND PHILLIPS HAVE BEEN COMPUTING VOLUME OF EQUITY OIL ON BASIS OF TOTAL "PROCUCIBLE" OIL, NOT ACTUAL PRODUCTION, BUT, UNLIKE SHELL-BP AND MOBIL, AGIP AND PHILLIPS RECOGNIZE FMG'S RIGHT TO MAKE UP ITS LOST VOLUMES OVER PERIOD OF TIME IN FUTURE.

7. SHELL-BP AND MOBIL ARE SAID TO BE IRKED WITH GULF AND AGIP/PHILLIPS FOR NOT APPLYING THEIR METHOD, BUT ALL OF THE COMPANIES HAVE APPARENTLY KEPT MUM ABOUT IT TO SEE WHAT WOULD HAPPEN. PAYMENTS FOR JANUARY EXPORTS WERE MADE ON THIS BASIS IN APRIL, AND THEY HAVE CONTINUED TO DATE, ACCORDING TO COMPANY SOURCES, WITHOUT ANYTHING BEING SAID ABOUT THEM EITHER BY THE COMPANIES OR THE GOVERNMENT.

8. FYI: FMG MET WITH AGIP/PHILLIPS, ELF, AND TEXACO/CHEVRON JULY 11 AND GAVE THEM SAME "FINAL" TERMS FOR THIRD QUARTER AS RECEIVED BY THE "BIG-THREE" PRODUCERS THE DAY BEFORE (REFTEL). SEVERAL COMPANIES HAVE SUBSEQUENTLY ASKED FOR FURTHER REDUCTION OF THE BUY-BACK PRICE (NOW \$11.40 PER BARREL), BUT FMG HAS SAID THIS AND ALL OTHER TERMS FIRMLY SET FOR THIRD QUARTER. END FYI.  
CROSBY

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